

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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11-06-17  
04:59 PM

Application of SOUTHERN CALIFORNIA GAS  
COMPANY (U 904 G) for authority to establish a  
memorandum account to record expenses for  
system reliability efforts associated with expiring  
rights-of-way on Morongo Indian Reservation and  
related relief

Application 16-12-011  
(Filed December 15, 2016)

**OPENING BRIEF OF  
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)**

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November 6, 2017

**BEFORE THE PUBLIC UTILITIES COMMISSION  
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Application of SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) for authority to establish a memorandum account to record expenses for system reliability efforts associated with expiring rights-of-way on Morongo Indian Reservation and related relief

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**I. INTRODUCTION**

Pursuant to Rule 13.11 of the California Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, and the Assigned Commissioner's Scoping Memorandum and Ruling (July 10, 2017), Southern California Gas Company ("SoCalGas") files its opening brief in support of its requested relief: Commission authorization to establish the Morongo Rights-of-Way Memorandum Account ("MROWMA") to track pre-construction costs for the possible relocation of gas transmission pipelines currently located on land held in trust for the Morongo Band of Mission Indians ("Morongo") by the United States government ("Morongo Reservation").

**II. BASIS FOR REQUESTED RELIEF**

SoCalGas seeks authority to establish a memorandum account to track:

pre-construction costs for the possible relocation of gas transmission pipelines to bypass the Morongo Reservation, including (but not limited to) environmental evaluations, surveys, pipeline engineering and design, constructability assessments, permitting, and other related efforts.<sup>1</sup>

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<sup>1</sup> See Amended Application of Southern California Gas Company (U 904 G) for Authority to Establish a Memorandum Account to Record Expenses for System Reliability Efforts Associated with Expiring

SoCalGas filed its application to inform the Commission and interested parties of a vital system reliability issue created by unique, unusual, and complex circumstances involving the dealings with Morongo. Three rights-of-way (“ROWS”) which allow SoCalGas to operate three major gas transmission lines through the Morongo Reservation are set to expire. Morongo will not voluntarily agree to the renewals unless SoCalGas pays \$308 million upfront, or \$1.25 billion over 50 years.<sup>2</sup> This is a matter of growing urgency, as the record demonstrates.

This application, and the requested relief, are instrumental in SoCalGas’ pursuit of a long-term alternative to renewing the existing ROWs under unreasonable or onerous terms. A memorandum account is a transparent and appropriate method by which SoCalGas can record costs to evaluate the viability of pipeline relocation around the Morongo Reservation before it files a formal stand-alone application, and before incurring potentially significant pre-construction costs. SoCalGas would present any costs recorded in this memorandum account to the Commission for review at some later time. Therefore, authorizing the creation of the memorandum account would not pre-determine that the costs recorded in the MROWMA will be recoverable in rates. It merely allows SoCalGas to track these costs, out of abundance of caution, for potential future review by the Commission.

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Rights-of-Way on Morongo Indian Reservation and Related Relief (“Amended Application”) (March 10, 2017), p. 3.

<sup>2</sup> Ex. SCG-03-R, p. 5; Ex. ORA-04-C, p. 117.

### **III. DISCUSSION**

#### **A. Background of Negotiations**

The record explains why SoCalGas is seeking this request. SoCalGas operates three gas transmission pipelines (Lines 2000, 2001, and 5000) which cross federal lands held in trust for Morongo.<sup>3</sup> The current 50-year ROWs under which those pipelines are operating will expire beginning March 29, 2018 (for Line 2000).<sup>4</sup> The ROWs for Lines 5000 and 2001 expire on August 21, 2018 and March 22, 2020, respectively.<sup>5</sup> These pipelines provide 26% of the system capacity to the SoCalGas transmission system and are crucial to serving SoCalGas' customers, including Morongo, as well as the SoCalGas Southern System serving San Diego Gas & Electric Company's ("SDG&E's") gas delivery system.<sup>6</sup> Despite SoCalGas' best efforts to engage Morongo in a proactive and respectful manner to renew these expiring ROWs on a voluntary basis,<sup>7</sup> an activity which could have otherwise been of a routine and ordinary nature, has manifested into anything but routine or ordinary because of the actions and positions taken by Morongo.

In **February 2015**, appraisals to determine the appropriate valuation of the ROWs were completed.<sup>8</sup> The appraised fair market value for a 50-year renewal of the three ROWs was \$2.57 million (and for a 20-year renewal, \$990,000).<sup>9</sup> The appraisal reports were submitted to Morongo, and Morongo then submitted them to the U.S. Bureau of Indian Affairs ("BIA") and Office of Special Trustee for American Indians ("OST") for approval.<sup>10</sup> BIA and OST reviewed

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<sup>3</sup> Ex. SCG-01-A (Haines), p. 1; Ex. ORA-04-C at 4.

<sup>4</sup> Ex. SCG-01-A (Haines) at 2.

<sup>5</sup> Ex. SCG-01-A (Haines) at 2.

<sup>6</sup> Ex. SCG-01-A (Haines) at 2-3.

<sup>7</sup> Ex. SCG-03-R at 4.

<sup>8</sup> Ex. SCG-03-R at 4.

<sup>9</sup> Ex. ORA-04-C, pp. 31, 375.

<sup>10</sup> Ex. SCG-03-R at 4; Ex. ORA-04-C at 31.

and approved the appraisal reports as compliant and consistent with federal regulations and guidelines.<sup>11</sup>

In **July 2015**, SoCalGas formally offered \$6.43 million to Morongo for a 50-year ROW renewal,<sup>12</sup> a fair and reasonable price for extension of the existing rights of way at expanded widths. Morongo did not substantively respond for over one year, and only in **October 2016** indicated that the offer was too low.<sup>13</sup> Morongo then waited another eight months, despite repeated urging from SoCalGas, to make its first demand and counter-offer.<sup>14</sup> On **June 27, 2017**, and only after executing an amended non-disclosure agreement with SoCalGas (which effectively restricted the ability to disclose details around negotiations, including appraisal values and offers, for a specified period of time<sup>15</sup>), Morongo sent in writing its demand and counter-offer: \$1.25 billion over 50 years (\$25 million per year for 50 years), or an upfront payment of \$308 million.<sup>16</sup> Morongo asserted the value of the ROWs to be the “go-around” price, not the appraised fair market value.<sup>17</sup> Thus, after two years, Morongo countered with a price exceeding SoCalGas’ July 2015 offer by more than \$300 million (net present value).

SoCalGas rejected the counter-offer and invoked mediation. The parties scheduled a mediation session on **August 28, 2017**.<sup>18</sup> That same day, mediation resulted in an impasse,<sup>19</sup> which consequently released SoCalGas from disclosure restrictions, per the terms of the amended non-disclosure agreement.<sup>20</sup> SoCalGas rejects Morongo’s method of valuing the

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<sup>11</sup> Ex. SCG-03-R at 4; Ex. ORA-04-C at 31.

<sup>12</sup> Ex. SCG-03-R at 4; Ex. ORA-04-C at 375.

<sup>13</sup> Ex. SCG-03-R at 5.

<sup>14</sup> Ex. SCG-03-R at 5.

<sup>15</sup> Ex. SCG-03-R at 3; Ex. ORA-04-C at 110-115.

<sup>16</sup> Ex. SCG-03-R at 5; Ex. ORA-04-C at 117.

<sup>17</sup> Ex. ORA-04-C at 117.

<sup>18</sup> Ex. ORA-04-C at 324.

<sup>19</sup> Ex. SCG-03-R at 3.

<sup>20</sup> Ex. SCG-03-R at 3; Ex. ORA-04-C at 114.

ROWs and maintains that its counter-offer is highly excessive and unreasonable to its ratepayers. In SoCalGas' estimation, it will be extremely challenging to reach a mutually acceptable ROW renewal through ongoing negotiations with Morongo; nevertheless, it keeps those channels open.<sup>21</sup>

Under the circumstances, SoCalGas should proceed with evaluating the potential relocation of the three transmission lines outside of the Morongo Reservation.<sup>22</sup>

### **B. Relocation of Pipelines**

In the 2014-2015 timeframe, in the course of, and in furtherance of, ongoing negotiations with Morongo, SoCalGas incurred costs to preliminarily analyze the conceptual feasibility of partial relocation routes (as a potential term of ROW renewals) and one full relocation route option.<sup>23</sup> The full relocation option under consideration entails constructing two 36-inch diameter pipelines around the Morongo Reservation, which potentially could interconnect with the three existing pipelines on the east and west sides of the Morongo Reservation, and provide equivalent operational capacity to the three existing transmission pipelines that cross the Morongo Reservation.<sup>24</sup>

Although the relocation appears feasible based on the conceptual study, SoCalGas would need to engage in a full design, engineering, and cost analysis to ascertain the existence and viability of relocation options.<sup>25</sup> The memorandum account will facilitate that effort.

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<sup>21</sup> Ex. ORA-04-C at 32.

<sup>22</sup> Ex. SCG-03-R at 5-6.

<sup>23</sup> Ex. ORA-04-C at 7.

<sup>24</sup> Ex. SCG-01-A (Haines) at 5.

<sup>25</sup> Ex. SCG-01-A (Haines) at 5-6; Ex. ORA-04-C at 7-8, 28-29.

#### **IV. OPPOSITION TO THE MEMORANDUM ACCOUNT**

Office of Ratepayer Advocates (“ORA”), The Utility Reform Network (“TURN”) and Southern California Generation Coalition (“SCGC”) (jointly, “Intervenors”), through protests, motions for dismissal, and prepared testimonies, oppose SoCalGas’ request for a memorandum account. Testimony submitted by ORA (Ex. ORA-01) and TURN/SCGC (Ex. TURN/SCGC-01) argued several common reasons why this application should be denied. First, Intervenors stress that SoCalGas has not furnished information in the form of cost estimates on any pre-construction work or on relocating the pipelines, or certain information about negotiations with Morongo.<sup>26</sup> Second, Intervenors argue that the pre-construction costs SoCalGas is seeking to record in the memorandum account are already covered by SoCalGas’ revenue requirement as determined in its 2016 Test Year General Rate Case (“GRC”),<sup>27</sup> and that the requested relief violates the terms of the GRC settlement.<sup>28</sup> Third, TURN/SCGC argue that SoCalGas’ request for a memorandum account for pipeline construction projects would create a cost recovery opportunity that goes beyond the treatment of similar pre-application costs for other SoCalGas pipeline construction projects.<sup>29</sup>

##### **A. Cost Estimates and Negotiation Details**

SoCalGas did not provide cost estimates in this proceeding, either for pre-construction costs or for the estimated costs of a full relocation, because it has not yet undertaken the design, engineering, and planning work necessary to develop reliable cost estimates.<sup>30</sup> Further, SoCalGas perceives a risk that providing cost estimates for either the pre-construction activities

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<sup>26</sup> Ex. ORA-01 at 3, 9-12; Ex. TURN/SCGC-01 at 4-5, 17.

<sup>27</sup> Ex. ORA-01 at 12-14; Ex. TURN/SCGC-01 at 5-7.

<sup>28</sup> Ex. TURN/SCGC at 10-12.

<sup>29</sup> Ex. TURN/SCGC-01 at 12-15.

<sup>30</sup> Ex. SCG-01-A (Haines) at 6; Ex. ORA-04-C at 8, 26; Ex. TURN/SCGC-01, Attachments to Testimony (p. 5).

or the actual relocation costs (however preliminary or ballpark) could be potentially detrimental during negotiations.<sup>31</sup> This risk continues as SoCalGas and Morongo are at an impasse, due to the wide disparity in price (SoCalGas' based on a valuation of the land rights themselves and Morongo's based on an estimated pipeline "go-around" price). That risk should not preclude SoCalGas from intensifying efforts to explore the possibility of other system reliability options, including relocation of the lines around the Morongo Reservation.

Although SoCalGas has not yet prepared an estimate of the pre-construction costs, SoCalGas anticipates the pre-construction costs may be significant.<sup>32</sup> Intervenors sought and were provided with information in the form of pre-construction costs incurred in furtherance of other SoCalGas pipeline projects. For the proposed North-South Pipeline Project ("North-South"), SoCalGas incurred pre-construction costs of approximately \$21.5 million.<sup>33</sup> For the Pipeline Safety and Reliability Project ("PSRP"), SoCalGas incurred approximately the same amount.<sup>34</sup> While these comparisons are not a forecast of pre-construction costs for the potential relocation of the gas transmission lines around the Morongo Reservation, they demonstrate that such costs may be significant. This is probative in explaining why SoCalGas is seeking a memorandum account. This also supports SoCalGas' position that it would not oppose a \$20 million cap on amounts to be recorded in the memorandum account.<sup>35</sup>

With respect to Intervenors' requests for additional negotiation details, at the time Intervenors submitted testimony, SoCalGas was restricted from disclosing certain information

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<sup>31</sup> Ex. SCG-01-A (Haines) at 6; Ex. ORA-04-C at 8, 26; Ex. TURN/SCGC-01, Attachments to Testimony (at 5).

<sup>32</sup> Ex. SCG-01-A (Haines) at 6.

<sup>33</sup> Ex. TURN/SCGC-02 (Responses to Q1-2) (combining costs incurred before and after the application was filed).

<sup>34</sup> Ex. TURN/SCGC-02 (Responses to Q3-4) (combining costs incurred before and after the application was filed).

<sup>35</sup> Ex. SCG-03-R at 8; Ex. TURN/SCGC-03 (Response to Q1f).



(e.g., appraisal values, offers, status) under the terms of the amended non-disclosure agreement with Morongo. As explained above, Morongo would not provide SoCalGas with a counter-offer to advance ROW renewal discussions until SoCalGas entered into an amended non-disclosure agreement. The terms of the agreement did allow SoCalGas to provide confidential details to ORA, however, which SoCalGas did. Once impasse was declared, SoCalGas was no longer restricted from publicly disclosing this body of information, which the parties have agreed to enter into the record under the joint motion filed with the Commission on October 16, 2017. These details provide material facts which justify SoCalGas' position that renewal of these ROWs have been anything but routine or ordinary. These facts also provide the Commission with information to determine that SoCalGas has acted in a manner that promotes ratepayer interests and system reliability, and that the request to establish a transparent and dedicated memorandum account to track the costs of a full study into potential relocation options is reasonable. This determination does not require the Commission to pre-determine or address cost recovery.

## **B. 2016 GRC**

### **1. SoCalGas intentionally excluded Morongo ROW-related costs**

TURN and SCGC argue that the pre-construction costs SoCalGas seeks to incur and record in the memorandum account are the same type of costs that would have been included in the 2016 GRC, and therefore, SoCalGas should incur those costs under its authorized GRC revenue requirement.<sup>36</sup> “For pre-application, pre-construction activities that are subject to the current GRC revenue requirement, SoCalGas’s request for an opportunity to recover the costs outside of that revenue requirement is wholly inappropriate.”<sup>37</sup>

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<sup>36</sup> Ex. TURN/SCGC-01 at 5-6.

<sup>37</sup> Ex. TURN/SCGC-01 at 6.

SoCalGas does not dispute TURN/SCGC's listing of the types of costs that were in fact included in SoCalGas' 2016 GRC, through its Gas Engineering witness. The expiration of the three ROWs was known to SoCalGas prior to the 2016 GRC filing. Indeed, SoCalGas intentionally excluded Morongo ROW-related costs from the 2016 GRC cost forecasts. When SoCalGas prepared and filed its 2016 GRC application on November 14, 2014 (A.14-11-004), SoCalGas did not have sufficient information to reasonably estimate the cost of renewing the Morongo ROWs.<sup>38</sup> SoCalGas didn't receive the appraisal reports until February 2015. Thus, for GRC purposes, it was unknown whether Morongo would voluntarily agree to a renewal and at what price, or that Morongo would wait until July 2017 to demand \$308 million for renewal of ROWs that had an appraised value of under \$3 million, based on an appraisal Morongo itself jointly commissioned and submitted to the BIA/OST. The impetus to plan for and design a complete relocation did not exist at the time the 2016 GRC was filed.<sup>39</sup> Because of the speculative nature of costs, SoCalGas made the decision to exclude any Morongo ROW-related costs from its 2016 GRC forecasts.

Moreover, at the time SoCalGas prepared and filed the 2016 GRC application, any estimate could have risked placing SoCalGas at a competitive disadvantage in negotiations with Morongo,<sup>40</sup> a dynamic which continues to exist today. SoCalGas determined it would be imprudent and not in the best interest of customers to include an estimate of potential rights-of-way renewal or relocation costs in the 2016 GRC.<sup>41</sup>

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<sup>38</sup> Ex. SCG-03-R at 7.

<sup>39</sup> Ex. SCG-03-R at 7.

<sup>40</sup> Ex. SCG-03-R at 7-8.

<sup>41</sup> Ex. SCG-03-R at 8.

## 2. 2016 GRC Settlement

TURN and SCGC argue that the 2016 GRC settlement, as agreed to by settling parties and approved by the Commission in D.16-06-054, included the costs of the full range of SoCalGas' activities and operations in these areas.<sup>42</sup> "In asking the Commission to now create a vehicle by which it might recover more than had been included in the GRC settlement for certain activities, SoCalGas violates the terms and conditions of the settlement agreement."<sup>43</sup>

SoCalGas disagrees on this point. The 2016 GRC settlement agreement was joined by ORA and TURN not too long ago. The language from that agreement, as quoted in Ex. TURN/SCGC-01 is accurate. The 2016 GRC settlement agreement also states:

### A. COMPROMISE OF DISPUTED CLAIMS

The Settling Parties agree that this TY 2016 Settlement Agreement represents a compromise of their respective revenue requirement-related (and including several miscellaneous terms that are not directly tied to the revenue requirement) positions in this proceeding.

### B. REGULATORY APPROVAL

Settling Parties acknowledge that the positions expressed in this TY 2016 Settlement Agreement were reached after consideration of all positions advanced in all the testimony sponsored in the proceeding by all Settling Parties and declare and mutually agree that the terms and conditions herein are reasonable, consistent with the law, and in the public interest.<sup>44</sup>

The motion accompanying that settlement states,

Settling Parties propose that this portfolio of settlements adequately resolves the specific contested issues of interest to each signatory without conflict or overlap among the various settlement agreements.<sup>45</sup>

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<sup>42</sup> Ex. TURN/SCGC-01 at 10.

<sup>43</sup> Ex. TURN/SCGC-01 at 10.

<sup>44</sup> Joint Motion for Adoption of Settlement Agreements Regarding Southern California Gas Company's Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018 (September 11, 2015), Attachment 1 (p. 2) "TY 2016 Settlement Agreement (including Appendix).

<sup>45</sup> Id. at 2.

As discussed earlier, and in the record, the pre-construction costs SoCalGas now seeks to record, were not ripe for inclusion in the test year 2016 GRC. Therefore, Morongo ROW-related costs were excluded from the 2016 GRC and were thus never subject to settlement. The inclusion of these categories of costs in SoCalGas' 2016 GRC should not disqualify Morongo-specific costs from being considered for recovery at some future time, to the extent they can be justified as just and reasonable and shown to be in furtherance of utility operations and service to customers. Further, while GRC revenue requirements cover the overall operations of a utility, there are clear and ample examples of operational costs that are not covered by authorized GRC revenue requirements. The Commission has docketed numerous stand-alone capital project applications from utilities which were filed outside GRCs yet which sought recovery for costs related to utility operations. TURN/SCGC mention two such applications: North-South (which was rejected) and PSRP (which is pending).<sup>46</sup>

SoCalGas has no intention of violating the terms of the 2016 GRC settlement. Requesting a memorandum account to track costs associated with a specific item that was not addressed in the 2016 GRC does not violate the terms of the settlement.

### **C. SoCalGas' Other Pipeline Projects**

Facts and circumstances differ materially from pipeline project to pipeline project. With the present situation with Morongo, SoCalGas has not yet filed a project application or a certificate of public convenience and necessity ("CPCN"), and has not determined whether to submit such an application. SoCalGas realizes its application for a memorandum account to track potential pre-construction costs for a potential future pipeline relocation project is not a common request. However, given the facts surrounding the ROW renewal efforts, and the fact

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<sup>46</sup> Ex. TURN/SCGC-01 at 12-13.

that Morongo is demanding a renewal price based on the cost to “go around” the Reservation which is nowhere near the fair market value of the ROWs themselves, SoCalGas and its ratepayers are facing unique and unpredictable circumstances that pose a credible threat to pipeline system reliability. If the ROWs are not renewed, SoCalGas will be in a trespass scenario, which may involve intervention by BIA or other federal agencies, legal action, and/or other consequences.<sup>47</sup> Further, Morongo could attempt to seek ejectment of SoCalGas’ pipelines.<sup>48</sup>

TURN/SCGC argue that in the North-South and PSRP SoCalGas did not request rate recovery of pre-application pre-construction costs.<sup>49</sup> TURN/SCGC further argue that to the extent pre-construction costs were incurred before the project application was submitted, the opportunity to achieve rate recovery of such pre-construction costs for these pipeline construction projects is limited to the GRC-authorized revenue requirement.<sup>50</sup> These projects do not provide a reasonable and relevant comparison to the present Morongo application and the underlying facts. The ability to recover costs, pre-application, or otherwise, for those particular projects has yet to be determined.<sup>51</sup> Moreover, SoCalGas does not seek cost recovery in this application; it only seeks the ability to record pre-construction costs.

If SoCalGas is able to renew the existing ROWs at a reasonable cost, this would be the best outcome for ratepayers and the SoCalGas system. At this time, however, it would not be prudent for SoCalGas to delay the exploration of other reasonable alternatives. SoCalGas is not

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<sup>47</sup> Ex. ORA-04-C at 4-5, 9.

<sup>48</sup> Ex. ORA-04-C at 5.

<sup>49</sup> Ex. TURN/SCGC-01 at 13.

<sup>50</sup> Ex. TURN/SCGC-01 at 13.

<sup>51</sup> Ex. TURN/SCGC-02 (Responses to Q1-4).

currently in a position to move forward with a fully formulated pipeline relocation project proposal. However, SoCalGas can no longer wait for Morongo or the federal agencies to act.

The relief requested in this application is reasonable to address this unique and complex system reliability challenge; and, the application itself provided an opportunity for SoCalGas to advise the Commission and interested parties of the issues in a transparent manner. The process of relocating the pipelines to go around the Morongo Reservation is expected to be lengthy and costly, and will not address the immediate issue of the expiration of the three existing ROWs. Incurring costs to explore alternative options nevertheless serves a legitimate operational need and provides a benefit to ratepayers.<sup>52</sup> SoCalGas understands that parties may disagree, and the Commission may ultimately deny cost recovery. Yet, a memorandum account remains a transparent and appropriate method of tracking costs for future Commission consideration, regardless of the ultimate outcome.

An application for a memorandum account related to evaluating the viability of a pipeline project is unusual, and may be a case of first impression for the Commission. There are cases, however, where the Commission effectively pre-approved a utility's pre-construction costs.<sup>53</sup> In Application ("A") 89-04-033, Pacific Gas and Electric Company ("PG&E") filed an application for a Certificate of Public Convenience and Necessity ("CPCN") to construct and operate an expansion of its existing natural gas pipeline system. SoCalGas was party to that proceeding, as a PG&E customer.<sup>54</sup> SoCalGas expressed concern regarding the potential impact of any cost reallocation of existing pipeline demand costs or facility costs to SoCalGas as a result of PG&E's expansion.<sup>55</sup> SoCalGas argued that the CPCN issued to PG&E must be conditioned

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<sup>52</sup> Ex. SCG-03-R at 6.

<sup>53</sup> See *e.g.*, Decision ("D.") 90-12-119 (mimeo), as modified by D.91-06-053.

<sup>54</sup> See D.90-12-119, p. 78.

<sup>55</sup> See *Id.*

upon Commission pre-approval of “necessary expansion costs by SoCalGas to ensure recovery of those costs regardless of usage.”<sup>56</sup> SoCalGas also argued that the Commission should “establish a separate proceeding to resolve cost, cost allocation, and rate issues concerning the SoCalGas system arising from the construction of new interstate pipeline systems before SoCalGas is to incur any construction costs.”<sup>57</sup> In responding to SoCalGas’ arguments, the Commission stated,

SoCalGas seeks a separate proceeding to resolve the cost, cost allocation, and rate issues concerning the SoCalGas system arising from the construction of new interstate pipeline systems. SoCalGas would refrain from incurring any costs for construction unless such proceeding were held. . . . In addition, SoCalGas seeks this Commission’s pre-approval of necessary expansion costs to ensure recovery of those costs regardless of usage.<sup>58</sup>

. . .

Under normal circumstances, we would find that our established revenue recovery mechanisms would provide SoCalGas adequate assurance that it will recover the reasonable costs of its plant investment. However, SoCalGas must exercise its utility obligation to serve under conditions that we have declared will be shaped by market forces, rather than by regulatory determination. We encourage SoCalGas to accommodate the deliveries of Expansion gas to its service territory by planning for and making system improvements contemporaneous with the development of the Expansion Project. It would be reasonable for SoCalGas to incur pre-construction, construction, and post-construction costs to interconnect the Expansion Project facilities regardless of actual usage; however, until the appropriate SoCalGas reasonableness review, we reserve our judgment on whether the specific costs of those undertakings are reasonable and should be recovered in rates.<sup>59</sup>

In addition, in A.02-05-046, Southern California Edison Company (“SCE”) filed an application regarding the future disposition of its Mohave Generating Station. The coal-fired

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<sup>56</sup> Id.

<sup>57</sup> Id. at 79.

<sup>58</sup> Id. at 121.

<sup>59</sup> Id. at 122.

power plant's continued operation was uncertain due to ongoing coal and water disputes.<sup>60</sup> For example, the Hopi Tribe opposed further water pumping from Mohave's then-current source of water, the N-Aquifer.<sup>61</sup> Thus, there were alternatives to explore for Mohave's continued operations, as well as for the Mohave shutdown case. The Commission stated:

Unfortunately, because of the absence of critical information on the costs of water and coal for a continued Mohave, neither the Commission, nor the parties, can make an informed determination as to the efficiencies of Mohave vis-à-vis any alternatives.<sup>62</sup>

...

Edison is hereby directed to undertake a feasibility study of the options for replacing its share of Mohave's output if Mohave closes, or to be used in conjunction with Mohave if it returns to service, from sources that will provide the fullest possible benefit to the Hopi and Navajo while protecting the interests of Edison's ratepayers.<sup>63</sup>

On ratemaking issues dealing with construction costs in particular, the Commission stated:

It is obvious from the record in this proceeding that we are still awaiting resolution of the water, coal and other issues. But we are also mindful that if we do nothing in the interim, the keep "Mohave-open" option could be compromised. We therefore find reasonable the following costs: (1) continued funding of the C-Aquifer studies; (2) funding of a study of alternative options; and (3) those specific design and construction costs that have been the subject of evidentiary hearings.<sup>64</sup>

...

Pending the outcome of the C-Aquifer studies, Edison is directed to continue to negotiate in good faith with the other stakeholders to reach a satisfactory resolution of all outstanding issues so Edison will be in a position to go forward with the environmental upgrades as soon as feasible.

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<sup>60</sup> See D.04-12-016 (mimeo), pp. 5-10.

<sup>61</sup> See Id. at 5.

<sup>62</sup> Id. at 51.

<sup>63</sup> Id. at 53.

<sup>64</sup> Id. at 59-60.



In the interim, Edison is to do whatever is possible within its control to advance the time line on the Mohave retrofit.<sup>65</sup>

SoCalGas' situation in the PG&E CPCN proceeding, and SCE's situation in its Mohave proceeding, appear to share the following attributes with the Morongo situation. First, the utility has identified an issue impacting its continued operations that is contingent on the actions of a third party. Second, the utility seeks to incur pre-construction costs and/or costs to explore alternatives to address the pending issue. Third, the utility seeks some form of relief or assurances before incurring those costs.

With the Morongo situation, the record provides compelling facts regarding the growing urgency of the system reliability issue caused by the expiration of existing ROWs for three major gas transmission lines serving customers and the Southern System. The record also demonstrates significant risk that it may not be feasible for SoCalGas to obtain a renewal of those ROWs under reasonable terms and pricing, despite SoCalGas' best efforts. Here, SoCalGas seeks similar assurances that it can track and record costs associated with efforts to explore full relocation of pipelines around Morongo to stabilize system reliability in the long run. SoCalGas does not seek a pre-determination of cost reasonableness or cost recovery.

## **V. CONCLUSION**

The situation at hand justifies the Commission to grant SoCalGas' request for authorization to establish a memorandum account to track pre-construction costs to analyze potential relocation options for three transmission pipelines operating under expiring ROWs that traverse federal lands held in trust for Morongo. SoCalGas acknowledges that this is not ordinarily how ROW renewal costs are addressed. The record demonstrates that the situation

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<sup>65</sup> Id. at 60.

with Morongo is anything but ordinary. Indeed, the circumstances presented here are highly unusual and extremely complex. From a system reliability standpoint, SoCalGas must explore options so that it is not pressured to accept renewal of the expiring ROWs under unreasonable terms that are favorable to Morongo at the expense of every other SoCalGas customer.

Accordingly, SoCalGas seeks approval of the MROWMA prior to beginning the detailed engineering and planning work necessary to evaluate options for the potential relocation of Lines 2000, 2001, and 5000, in furtherance of its efforts to promote system reliability for all of SoCalGas' customers as well as the SoCalGas Southern System.

Respectfully submitted,

SOUTHERN CALIFORNIA GAS COMPANY

By: /s/ Johnny Pong  
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November 6, 2017